XYCOR
Investment and Market Analysis

for
Streller and Kennedy

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XYCOR INVESTMENT AND MARKET ANALYSIS

for
Streller and Kennedy

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presented by

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OUTLINE

- Objectives
- Methodology
- Interview Profile
- Credit Insurance Industry: Structure and Dynamics
- Market
- Interview Comments
- Summary of Key Findings
- Recommendations
- Other Considerations

OBJECTIVES

- Near-Term Potential Market
- Propensity to Buy
- XYCOR's Likely Market Penetration

METHODOLOGY

- Meet with XYCOR Senior Management
- Develop Questionnaires to Address
  - Current Systems Status
  - Needs of Prospects
  - Interests
  - Competitive Awareness
  - Market Attitudes
  - Propensity to Buy
- Interview
  - Potential Users
  - Third Parties
  - Existing Users

INTERVIEW PROFILE

- 23 Insurance Companies
  - 5 XYCOR Users
  - 7 Logic Users
  - 11 Prospects
- XYCOR Users
  - 2 Insurance Subsidiaries of Bank Holding Companies
  - 1 Life Insurance Subsidiary of a Retail Chain Store
  - Life Insurance Subisidiaries of 3 Consumer/Commercial Finance Companies
- 6 Prospective Banks
- 1 Competitor (Logic)
- 5 Third Parties
  - 2 Automobile Warranty Firms
  - 1 Financial Printing Company
  - 1 Insurance Agency
  - 1 DP Service Bureau
- Total = 41 Organizations

MARKET SEGMENTS

- Credit Insurance
  - Insurance Companies
  - Insurance Brokers
  - Commercial Banks
  - Other Financial Institutions
  - Retail Firms
- Warranty Business
  - Auto Dealers
  - Other Dealers

CREDIT INSURANCE INDUSTRY STRUCTURE AND DYNAMICS

- Shrinking Number of Prospects
- Credit Insurance Written by Subsidiaries of:
  - Bank Holding Companies
  - Insurance Companies
  - Finance Companies
  - General Insurance Agencies
  - Retail Chains
  - Credit Card Issuers
- Data Processing Done by All of Above Plus:
  - Service Bureaus
  - Insurance Administrators
- Mainframe Usage Varies Considerably
- Rates in Each State Are Regulated
- Factors for Success
  - Low Overhead
  - Investment Income to Build Reserves and Pay Claims
  - Sufficient Reserves
  - Strong Agent System or Other Marketing Approach
  - Use Reinsurance Market to Spread Risk

MARKET: INSURANCE INDUSTRY

- US Insurance Companies (1985) = 6,830

  - Life = 2,130
  - P&C = 3,500

  } 5,630

  - Health = 1,200

- US Insurance Brokers (1984) = 500

  - Top 20 Wrote $3.6 Billion
  - Top 250 Wrote $5.6 Billion

COMMERCIAL BANKS

- US Total (1985) = 14,000
- Bank Holding Companies = 6,500
- Money Center/Regional Banks = 105

MARKET:
OTHER FINANCIAL INSTITUTIONS

- Savings and Loan Associations = 3,250
  - 10% Have In-House Mainframe (325)
- Credit Unions = 13,000
  - Top 2,700 Account for 70% of Deposits
  - 30% of Top 2,700 Credit Unions Have Mainframe (800)
- Finance Companies = 3,000
  - Top 3% Account for 90% of Assets
  - 40% Use Batch Processing
  - 5% Use Mainframes
- Mortgage Bankers = 900
  - Top 11% Account for 70% of Loans

CREDIT INSURANCE MARKET: RETAIL FIRMS

- Department Stores (1985) = 6,000
- Jewelry Stores (1985) = 10,500
- Furniture and Appliance Stores (1985) = 8,100

CREDIT INSURANCE: XYCOR TARGETS

- Commercial Banks
  - Money Center/Regional Banks (105)
  - Bank Holding Companies with IBM Mainframes (1,525)
- Other Financial Institutions
  - Largest Savings and Loan (325)
  - Credit Unions (800)
  - Finance Companies (100)
- Retail Firms
  - Department Store Chains (25)
  - Jewelry Store Chains (15)
  - Furniture Store Chains (125)

CREDIT INSURANCE MARKET: ISSUES AND DRIVING FORCES

- Interest Rates/Economy (6)
- Consumerism/Usage of Credit (5)
- Rate Deregulation (4)
- Increased Competition (3)
- Movement by Bank Holding Cos. to Lines of Credit/Revolving Credit From Individual Purchase Financing (2)
- Expansion of Interstate Banking (1)
- Slowing of Mortality Rates (1)

WARRANTY BUSINESS: U.S. DEALERS

- Automobile Dealers
  - Total (1985) = 24,810
- Recreational Vehicle Dealers
  - Total = 4,700
- Mobile Home Dealers
  - Total = 1,800
- Motorcycle Dealers
  - Total = 2,600
- Marine Products Dealers
  - Total = 3,100

WARRANTY BUSINESS: XYCOR TARGETS

- Auto Dealers
  - Multi-Location Operations with In-House Mainframe (120)
- Banks or Other Financial Institutions Selling To Dealers of:
  - RVs
  - Mobile Homes
  - Motorcycles
  - Marine Products
  - Appliances

WARRANTY MARKET: ISSUES AND DRIVING FORCES

- Extension/Upgrade of Factory Warranty By Auto Manufacturers (3)
- Auto Sales (1)
- Economy (1)
- New Tax Law (1)

PRODUCT-RELATED COMMENTS

- Strengths
- Weaknesses
- Pricing of Software
- Pricing of Software Customization
- XYCOR's Service Bureau
- General Comments

XYCOR'S PRODUCTS STRENGTHS

- Two Mentions:
  - Flexibility
  - Ease of Use (XY-Claim)
  - "User Friendly"
- One Mention Each:
  - Availability of Customization
  - Good Service
  - Good Documentation
  - Excellent Understanding of the Business
  - SW Provides Good Audit Trail
  - High Quality of Reports
  - Integrated Software

XYCOR'S PRODUCT WEAKNESSES

- Three Mentions
  - Long Run-Time
- One Mention Each
  - Long Implementation for Changes to Program
  - Turnover of Personnel Supporting "XY - Warranty" Package
  - "Communication Between 2 Packages" (Packages Not Specified)
  - Reports Are Marketing, Not Finance Oriented
  - Complexity (500-600 Modules Plus JCL Plus Updates)

PRICING OF SOFTWARE

- "On Par With Logic"
- "In the Ballpark"
- "Very Competitive"
- "Much More Competitive than McAuto"

PRICING OF SOFTWARE CUSTOMIZATION

- "Got Money's Worth Due to Difficulty of Conversion"
- "On the High Side - - Not Outrageous - - But Got Our Money's Worth (Even at Twice the Price!)"
- (Compared to In-House) "Reasonable"
- (Compared to In-House) "Even Though More Expensive, It Will Be Cost Effective, Due to Expertise of XYCOR Staff"
- (Compared to Other Bids) "Cost Effective"

XYCOR'S SERVICE BUREAU

- "Down a Lot"
- "Changes Were Made to the System with No Notice to Customers" (Happened 3 Times with Changes to Operating System)
- "80% Behind in Reports Promised at Time of Contract Signing"
- No Support to Convert From DOS to OS
- No Compiling/Linkages/ or JCL for Reports

GENERAL PRODUCT COMMENTS

- Needs Easier Integration to Standard Accounting Software (MSA, Etc.)

- "Mainframe Does Everything We Need; System/36 Does Nothing"

- "Complete Modules"

INTERVIEW FINDINGS: SALES, MARKETING, SERVICE

- Purchase Decision
- Advertising and Promotion
- "Hot Buttons"
- Other Comments

PURCHASE DECISION (1)

- Open Ended Questions
- Asked for Top 3 Factors

KEY FACTORS	TOTAL MENTIONS	FIRST PLACE MENTIONS
Cost/Staffing	5	1
Ease of Integration/ Ease of Installation/ Ease of Modification	3	2
Vendor's Expertise	3	0
Performance/Speed	2	0
Improved Software for Claims Handling	2	1
Ease of Use/User Interface	2	1
Service/Updates/ Enhancements/Support	2	1

PURCHASE DECISION (2)

OTHER FACTORS*	FIRST PLACE MENTIONS
Software for Establishing Reserves	1
System that Does Underwriting	1
System that Handles Reinsurance	1
System that Reconciles Production to Certificates	1
Expandability	
Overall Flexibility	
Functionality	
Rated the Documentation	
Flexibility in Programming Commission Payments	

* Received One Mention Each

ADVERTISING AND PROMOTION

- Three Mentions
  - Ads in "National Underwriter"
- Two Mentions Each
  - Word-of-Mouth
  - Consumer Credit Insurance Association (CCIA) Meetings
- One Mention Each
  - Direct Mail*
  - Knew Principal of XYCOR
  - Employee Went to Work at XYCOR
  - Sales Rep. Contact (Logic)
  - Worked at a Company Which Evaluated XYCOR
  - DataPro (Directory)

* Mail sent in 1979-1980; purchase made 3-4 years later!

"HOT BUTTONS"

- Satisfy Management Reporting Requirements and Statutory Requirements
- Sell Consistency and Credibility of Numbers (versus Manual Processing)
- Hidden Costs of In-House Solutions (Hire Programmers and Analysts; Get Users to Clearly Define Their Requirements)
- Quick Turnaround of Claims/Better Service
- Number of Claims Processed per Person

OTHER SALES/MARKETING COMMENTS:

- "XYCOR senior managers are not sales people; they are detail people. I was looking for detail people. However, some gladhanding would help a great deal."
- "XYCOR's user group is very well received."
- "More personalized service."
- "XYCOR works with users; meets problems head-on."
- "XYCOR has strong loyalty from customers who previously processed claims manually."
- "In the past, XYCOR tried to help everyone at once (fast-growth period); now, much better."

COMMENTS ON COMPETITION

- Competitors Mentioned
- Logic
- Others

COMPETITORS MENTIONED BY RESPONDENTS

- Processing Services
  - Credit Life (Springfield, OH)
  - United Life Services
  - Northwest Data Processing
  - Ryan Insurance (Chicago)
  - Logic
  - Prudential

- Software
  - McAuto
  - US Life
  - ISI (Grumman Subsidiary)
  - Allied Insurance Services (Norcross, GA)
  - Computronics (Addison, IL)
  - LDL (San Diego, CA)
  - Logic

LOGIC (1)

- Sales and Marketing
  - "Logic Is a More Sales-Oriented Company than XYCOR"
  - "More Sales than Service"
- Strengths
  - Flexibility
  - Market Share
  - User Group
  - Reasonable Pricing of Software
  - Has a "Vendor Single Interest" Package

LOGIC (2)

- Weaknesses
  - "Bigness"/Responsiveness (4)
  - Lack of Flexibility
  - Timeliness of Reports
  - Unsatisfactory Conversion
  - Frequency of Updates
  - Processing Service Will Only Support 2 Insurance Products
  - Not Keeping Current with Industry Changes (2)
  - Understanding of Warranty Business
  - Customizing is Priced a Bit High
  - Does not Care About Interfaces with XYCOR

LOGIC (3)

- 6 of 9 Logic Users/Ex-Users Interviewed Considered Only Logic for Credit Insurance Software, When They Purchased Software.

OTHERS

- United Life
  - "Batch Processing is too Slow"
  - "Information Is Not as Detailed as Logic"
- McAuto
  - "Offered to Build a Credit Card System as Part of Its Claims System"

XYCOR'S ADDRESSABLE MARKET: CREDIT INSURANCE MAINFRAME SOFTWARE CUSTOMERS

CATEGORY	Available	Less: Adjustments*	Addressable
Insurance Companies	5,630	5,500	130
Bank Holding Comp.	1,525	1,350	175
Money Ctr./Reg'l Banks	105	10	95
Savings and Loans	325	250	75
Credit Unions	800	750	50
Finance Companies	100	65	35
Retail Firms	165	120	45
Total	8,650	8,045	605

* Includes: In-house developed systems; captive processing; well-entrenched competitors and lack of mainframe computers

XYCOR'S ADDRESSABLE MARKET: CREDIT INSURANCE MAINFRAME SOFTWARE EXPENDITURES

CATEGORY	ADDRESSABLE MARKET ($ Millions)
Insurance Companies	$ 32.5
Bank Holding Companies	39.9
Money Ctr./Reg'l Banks	28.5
Savings and Loans	18.8
Credit Unions	12.5
Finance Companies	8.8
Retail Firms	12.4
Total	$153.4

SUMMARY OF KEY FINDINGS (1)

- Insurance companies have relatively high penetration of credit insurance software and processing services
- Follow-on business at existing XYCOR insurance customers estimated at only 20-25%
- XYCOR credit insurance software:
  - Completeness results in follow-on business equal to monthly software maintenance fees
  - Payment of software mainframes fees limits follow-on business since product is kept up-to-date
  - Initial software customization limits follow-on business
  - Software may be priced too low
  - Customers perceive very high value of software customization; can be priced higher

SUMMARY OF KEY FINDINGS (2)

- Many insurance companies selling credit insurance have interrelated organizations; data processing of largest firms is relatively concentrated and medium/small firms use processing services/ third-party administrators to process claims.

INVESTMENT RECOMMENDATION

- Based on Current Products and Market, Proceed with Investment

OPPORTUNITIES

- Mortgage Insurance (3)
- Insurance on Second Mortgages
- Brown and White Goods Entended Warranty
- Homeowner's Warranty
- "Vendor Single Interest" (2)
  (Casualty Product for Autos)
- Unemployment Insurance
- Micro-Based software or System to Calculate Quotes (Required By "Truth- In-Lending" LANs) (2)
- Oil Companies' Credit Card Operation

MARKETING RECOMMENDATION

- Concentrate XYCOR's Efforts on Banks and Large Savings and Loans, Credit Unions, Finance Companies and Retail Chains

ADDITIONAL CONSIDERATIONS

MARKETING

- Move Cautiously Toward Newer Markets
  - Do Not Do Customer Education for the Industry
  - Concentrate on Best Prospects
- Change Modules and Reprice XY-Credit/XY-Claims
- Redefine Reprice Software Updates to Generate Additional Revenues
- Build Strategic Alliances with Service Bureaus, Insurance Administrators Servicing Smallest Banks and Insurance Companies. (ex.: Policy Management Systems)
- Price Software for Service Bureaus on a "per Transaction" Basis
- Work More with Bank Holding Companies to Determine Needs